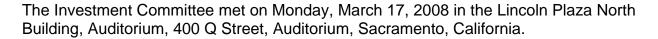


CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

March 17, 2008



The meeting was called to order at approximately 9:10 a.m. and the following members were present:

Charles Valdes, Chair
George Diehr, Vice Chair
Marjorie Berte
John Chiang
Rob Feckner
David Gilb, represented by Greg Beatty
Henry Jones
Bill Lockyer
Priya Mathur
Louis F. Moret
Tony Oliveira
Anne Sheehan
Kurato Shimada

AGENDA ITEM 2 – APPROVAL OF FEBRUARY 2008 MEETING MINUTES

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** that the February 19, 2008 Open Session minutes be approved as presented.

AGENDA ITEM 3 – ELECTION OF CHAIR AND VICE CHAIR

Mr. Jones nominated Mr. Diehr to Chair the Committee.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** that Mr. Diehr be elected Chair of the Investment Committee by acclamation.

Mr. Feckner nominated Ms. Mathur to Vice Chair the Committee.

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** that Ms. Mathur be elected Vice Chair of the Investment Committee by acclamation.

AGENDA ITEM 4 – TOTAL FUND

CalPERS Total Fund Quarterly Report

Michael Schlachter and Andrew Junkin, Wilshire Associates, presented the Executive Summary of the Investment Performance of the CalPERS Total Fund, Affiliate Funds, Legislators' Fund, Annuitants Healthcare Plan, and the Supplemental Income Plans for the quarter ending December 31, 2007. Performance for each fund and each asset class was reviewed. It was noted that CalPERS generated a total fund return of -0.5% for the quarter and 10.0% for the year. The total fund composite lagged its strategic policy. However, the System has beaten its weighted policy index and its actuarial rate of return for the 3-year, 5-year, and 10-year periods.

Nori Gerardo Lietz, PCA-Real Estate Advisors, provided a real estate update and noted that a drop in return of about 15% for the portfolio from the three-year to the one-year number is not typical. On a positive note, the core portfolio is well and defensively positioned, and a large and material component of the portfolio is invested outside the U.S. which will provide a buffer to the performance of the U.S. real estate returns.

Mike Moy, Pension Consulting Alliance, provided a private equity update including remarks that the cyclical historical outperformance will not be sustained. Due to lagged accounting, the impact of the market deterioration is unknown as of December 31 and declines in expected performance will continue. However, Private Equity commitments over the past 18 months to distressed managers should start to show some productive returns in the future.

The Committee accepted the information reports.

AGENDA ITEM 5 – REAL ESTATE

There were no items to report.

AGENDA ITEM 6 – ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM

There were no items to report.

AGENDA ITEM 7a – INFLATION-LINKED ASSET CLASS, Implementation Update

Farouki Majeed, Senior Investment Officer, reported on the Inflation-Linked Asset Class (ILAC) implementation progress, including the commodities, inflation-linked bonds, infrastructure, and forestland components. An update was provided for each component in the areas of investment policies, staffing, delegations, incentive plan, and investment implementation.

There was discussion regarding presentation of the Infrastructure component of the ILAC Policy at the next Policy Subcommittee meeting. Staff reported on efforts to engage city, county, and special district organizations.

Staff will continue to provide ILAC implementation updates as needed.

AGENDA ITEM 8a – GLOBAL FIXED INCOME, Member Home Loan Program Annual Review

Curtis Ishii, Senior Investment Officer, Dan Kiefer, Senior Portfolio Manager, and Arnie Phillips, Portfolio Manager, presented the item.

Staff provided an annual performance review of CitiMortgage, Inc. Since April 2003, CitiMortgage has served as mortgage loan master servicer and manager of the CalPERS Member Home Loan Program. A Request for Proposal for master servicing and program management services was issued on July 13, 2007, and at the February 2008 Investment Committee meeting staff reported plans to award a new contract to CitiMortgage. Because contract negotiations will not be complete before the current contract expires, staff requested that the current CitiMortgage contract be extended for up to 12 months.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve extension of CitiMortgage Inc.'s contract for 12 months.

AGENDA ITEM 8b – GLOBAL FIXED INCOME, Rating Agency Proposal

State Treasurer Lockyer presented a proposal that CalPERS join a joint effort by municipal bond issuers and investors, requesting the three leading rating agencies (Fitch, Moody's, and Standard & Poor's) to reform their methods for rating government issued bonds. Currently the rating agencies hold government bond issuers to a higher standard than corporate issuers.

On **MOTION** by Mr. Lockyer, **SECONDED** and **CARRIED** to adopt adopted the following resolution:

The Board of Administration of the California Public Employees' Retirement System endorses the principle that major rating agencies should rate municipal bonds on a scale based on new standards which are uniform, fair, and consistent, and which will

provide all investors with an accurate and credible basis for comparing the relative default risk of municipal and corporate bonds and other investment vehicles. The Board supports voluntary action by the major ratings agencies to achieve these objectives, and failing that, will support appropriate and effective legislative or regulatory efforts to achieve them. The Board directs staff to communicate the Board's position to ratings agencies, Congress and relevant regulatory agencies, and to provide leadership on this issue to other public and private pension funds, and coalitions of investors such as the Council of Institutional Investors, subject to the normal review and approval procedures of the Investment Committee and the Board.

The meeting recessed from 11:00 to 11:15 a.m.

AGENDA ITEM 9a – GLOBAL EQUITY, New Internally Managed Portfolios

Eric Baggesen, Interim Senior Investment Officer, provided an update regarding the global equity restructuring plan which has been underway since August 2007. The plan objective is to increase the above benchmark or "active" return of the asset class. Staff presented background and rationale for the next step, which is to establish an international small / micro cap index fund and an emerging markets index fund.

Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the establishment of an international small / micro cap index fund and an emerging markets index fund.

AGENDA ITEM 9b – GLOBAL EQUITY, Implementation of California Public Divest from Iran Act

Anne Stausboll, Chief Operating Investment Officer, informed the Investment Committee of the Act's provisions and outlined an implementation plan and next steps. AB 221, the "California Public Divest from Iran Act," became effective on January 1, 2008. The Act generally prohibits both the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) from investing in companies with certain business operations in Iran. This prohibition is subject to the System's fiduciary duty.

Periodic implementation updates will be provided to the Investment Committee. The next report is scheduled for summer 2008.

AGENDA ITEM 9c – GLOBAL EQUITY, Corporate Governance – Corporate Board Diversity

Eric Baggesen, Interim Senior Investment Officer, and Dennis Johnson, Senior Portfolio Manager, presented the item.

At the request of the State Controller, staff provided an overview of current CalPERS Corporate Governance policies and principles relevant to support of corporate board diversity. Survey data collected by five organizations and a Wall Street Journal report regarding minority representation on corporate boards were cited.

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to direct staff to return to the Investment Committee with a range of options to proactively address issues of diversity on corporate boards.

AGENDA ITEM 9d – GLOBAL EQUITY, Corporate Governance Update – Council of Institutional Investors (CII) Spring Meeting

Dennis Johnson, Senior Portfolio Manager, reported regarding:

- CII Policy and Bylaw Changes Staff presented proposed CII policy and bylaw changes that will be considered at the CII Spring Meeting. The Chair directed staff in the future to bring items scheduled for the annual CII meeting to the Investment Committee for action.
- CII Spring Meeting Agenda was presented for the Committee's information.

AGENDA ITEM 10a – LEGISLATION, AB 1967 (Torrico) – Investment Prohibition

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to defer consideration of this item to the April meeting.

AGENDA ITEM 11a – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Consolidated Investment Activity Report

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of January 31, 2008, was approximately \$244.7 billion and the total book value was approximately \$204.7 billion.

AGENDA ITEM 11b – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Chief Operating Investment Officer's Status Report

The Committee accepted the Chief Operating Investment Officer's Status Report and annual agenda item schedule.

AGENDA ITEM 12 – DRAFT APRIL AGENDA

The Committee accepted the proposed April 21, 2008 agenda as presented.

AGENDA ITEM 13 – PUBLIC COMMENTS

There were no public comments.

At this point, the following recusal statement was made: State Controller Chiang stated "out of an abundance of caution, I will not be participating on [closed session Agenda Item] 4a [Real Estate Portfolio Sector Update]."

The meeting was adjourned at 11:35 a.m.

The next Investment Committee meeting is scheduled for April 21, 2008 in Sacramento, California.

FRED BUENROSTRO
Chief Executive Officer

Investment Committee 6 March 17, 2008